



ECONOMY AND VALUES RESEARCH CENTER

THE STORY OF THE EMERGING IT CLUSTER IN ARMENIA

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The case study describes the process of formation of the IT cluster in Armenia, highlighting its main characteristics and underlying factors. This is an illustration of a vibrant self-emerging cluster.

The process started with and then was driven by small groups of highly qualified and enthusiastic IT professionals – the remnants of a huge ICT and electronics complex, once called “Silicon Valley of the USSR”, but totally ruined together with the collapse of the USSR at the beginning of the 1990s.

The case study demonstrates how the combination of a number of internal and external factors conditioned the rapid development of the IT industry, particularly, the software and IT services sub-sectors. In a decade after the collapse the IT industry became the most dynamic and rapidly growing sector of Armenia’s economy. Specifically, the factors included:

- IT sector as well as IT professionals were out of the interests of the Government and power groups, and thus were fully exposed to market forces and “were given” freedom of action;

- IT professionals possessed high professional qualifications and a strong networking spirit, together with the inherited industrial culture;

- High costs of transportation conditioned by the fact of Armenia’s being a landlocked country with transportation routs interrupted and blocked by its neighbors;

- The existence and further development of Internet, which allowed easy transfer of software products;

- The existence of a big Diaspora in developed countries (the USA, the EU countries) that served as an excellent bridge to international markets, and also as an important investor;

- Very good quality/price ratio that attracted foreign customers and investors.

Even though Armenia’s IT Cluster is only in its early emerging phase, the developments in this sector have been very impressive and emblematic for a self-emerging cluster.

The case study tells also how the developments in the IT sector brought to the point where (at the end 1990s and beginning of 2000s) various players - businesses, the Government, educational institutions, Diaspora members, international donor organizations - started to realize the necessity of collaboration and concerted action for further development, and planted the first seeds of a cluster (establishment of IT unions, and ITDS Council, joint projects between IT businesses, educational institutions, international organizations and the Government).

In parallel to sector developments, the case study pictures also the story of a group of IT professionals, who managed to grow, through a series of acquisitions, from an informal small team to a competence center for Lycos Europe, a leading company in international Internet market.

The case study is designed to help students to get a feeling of processes inside a spontaneously emerging cluster. They will learn to show how the interaction of various factors and actors in the marketplace necessitates to establish appropriate supporting institutions as well as to collaborate with each other for the benefit of all parties.